

SPECIAL



BOSTON MUNICIPAL RESEARCH BUREAU
24 Province Street, Boston, Massachusetts 02108 (617) 227-1900

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THE IMPACT OF QUESTION 3 ON THE CITY OF BOSTON *Boston Faces Projected Revenue Cuts of \$63 million in 1991 and \$105 million in 1992*

On November 6th, the voters of Boston will be able to mark their ballots on Question 3, the initiative law proposed by the Citizens For Limited Taxation. Question 3 would change state tax rates, roll back to July, 1988, all increases in fees and charges imposed by state agencies and independent authorities and repeal any tax increase enacted since August 2, 1989. The tax reductions would take effect on January 1, 1991. To help the citizens of Boston better understand the potential effects of the passage of Question 3 on the City of Boston and its service delivery, the Bureau has prepared this report. Our intent is to provide an independent assessment of the impact using conservative assumptions. The Bureau takes no position on this question.

This report is a summary of the larger analysis which explains the methodology utilized in reaching the conclusions of this report. The full report is available upon request.

- * The City of Boston would face a potential loss in local aid of \$60-\$66 million in fiscal 1991 and \$95-\$115 million in fiscal 1992 with the passage of Question 3. The midpoint of each of these ranges, \$63 million in fiscal 1991 and \$105 million in fiscal 1992, was used to project the impact on Boston's operating budget. The magnitude of cuts required over 18 months would affect the City's ability to provide basic services. Local aid for Boston this year is \$423.9 million or 31.1% of total operating revenues. That is \$19.3 million less than budgeted for last year. More cuts may come this year if state revenues decline.
- * This year in Boston, five city departments--School, Hospital, Police, Fire and Public Works--represent 77.6% of total departmental spending. A large reduction of revenue will necessitate expenditure cuts of varying degrees in each of these departments.
- * For fiscal 1991, a simulated budget strategy for Boston that prioritized departmental cuts on three levels, favoring police and fire services, still requires the Police and Fire Departments to cut spending by 8.0% (-\$5.1 million and -\$3.5 million respectively), School spending by 14% (-\$21.1 million) and Hospital costs by 14% (-\$11.2 million). Most other departments would need to reduce expenditures by 25.5% over six months. A proportional reduction would have required each department to cut by 7.3%. Police cuts then would have risen by an additional \$4.2 million. For fiscal 1992, the percentage cuts would change to 8.0% for Police (-\$10.2 million) and Fire (-\$6.9 million), 10.0% for Schools (-\$30.1 million) and Hospitals (-\$16.0 million) and 17.8% for most other departments.
- * Departmental cuts this year could result in the reduction of 1,452 employees from the City's work force, a decrease of 8%. Such a cut would drop Boston's payroll back to the 1982 level, the first year of Proposition 2½ and the lowest employee level in the last ten years. In fiscal 1992, the City's work force would decrease by 2,166 overall. Next year the Police payroll would be cut by 232 positions and Fire by 146. Schools would lose 689 positions and Hospitals 351. Since the start of the Flynn Administration in January, 1984, the number of city departmental employees has increased by 40, in large part due to the decrease in the hospital work force. Over the last six years, the city-funded payroll has increased by 532 or 2.9% as a result of the growth of school and correctional employees.
- * In fiscal 1991, the Flynn Administration would look to other alternatives to reduce the spending cuts required over six months. A \$17.6 million segregated reserve fund established to prevent operating deficits could be tapped. However, that would provide only temporary relief since the funds from this reserve would have to

be restored the following year. Using this reserve would save 405 positions from being eliminated this year. City officials have considered applying the proceeds from the sale of the Bedford Street garage to operational expenses if the sale is finalized this year. That is not fiscally prudent in this period when both state and local governments must permanently reduce operational expenditures. Rather, the proceeds should be used for needed capital improvements.

- * If Question 3 passes, the Flynn Administration would consider seeking an override of the property tax limit for fiscal 1992. Based on fiscal 1991 values and levies, an override of \$35 million, one-third of the projected revenue loss, would increase the residential tax rate by \$0.36 and the business tax rate by \$1.83. Residential taxpayers would pay 30.1% of the increase or \$11.7 million, and business taxpayers would pay 69.9% or \$23.3 million. The average single family home would pay an extra \$59.40, while tower buildings such as the Bank of Boston and Sixty State Street would pay an additional \$597,678 and \$380,489 respectively. The increase in the property tax burden, in these economic times, would lead to a jump in the number of abatement requests, creating other fiscal problems for the City. Reducing the City's revenue loss by \$35 million would prevent 943 positions from being cut, leaving a reduction in the City's work force of 1,223.
- * The passage of Question 5, which stipulates the allocation of 40% of the growth revenues to local aid, will not prevent local aid from being cut if Question 3 is approved. The degree to which Medicaid and key state services would have to be cut to keep local aid even level-funded makes it clear that a reduction in local aid would be part of the State's response to the passage of Question 3 in fiscal years 1991 and 1992.
- * The Bureau's analysis is conservative in its assumptions. City officials should plan on contingencies more adverse than outlined in this report.

If Question 3 Does Not Pass

The City of Boston will need to reduce its spending for fiscal 1992 even if Question 3 does not pass. The State will need to restructure and reduce its spending over the next few years, and State support of local government will be affected. Next year local aid will be level-funded at best. For Boston, less new growth will be available to increase the property tax levy next year. The City may use as much as \$38.6 million of its budgetary fund balance (free cash) this year, \$18.0 million more than used in any previous year and far more than will be certified for next year. The cuts in spending would not be as severe as required with Question 3 and will have to be achieved through focusing on delivering basic services more efficiently. School Department spending will need to be controlled. The Department is spending \$12.1 million over its appropriation this year. Collective bargaining agreements being negotiated will have to keep costs within the City's ability to pay. That may mean no salary increases and requiring employees to assume a larger share of benefit costs. The City has negotiated generous contracts over the past few years and now should push for productivity gains. The City will need to develop strategies to reduce its work force over the next few years.

QUESTION 3: POTENTIAL BUDGET AND EMPLOYEE REDUCTIONS FOR BOSTON

DEPARTMENT/SERVICE	FY91 BUDGET	PERSONAL SERVICES AS A % OF '91 BUDGET	FISCAL 1991			FISCAL 1992		
			\$63M CUT	PERCENT CUT	EMPLOYEE REDUCTION	\$105M CUT	PERCENT CUT	EMPLOYEE REDUCTION
SCHOOL DEPARTMENT	\$301,074	83.69%	\$21,075	14.00%	483	\$30,107	10.00%	689
HEALTH & HOSPITALS	160,435	70.71%	11,230	14.00%	246	16,044	10.00%	351
POLICE	127,212	81.39%	5,088	8.00%	116	10,177	8.00%	232
FIRE	86,488	90.35%	3,460	8.00%	73	6,919	8.00%	146
PUBLIC WORKS	23,898	59.62%	3,042	25.46%	72	4,242	17.75%	101
LIBRARY	19,559	69.49%	2,490	25.46%	66	3,472	17.75%	91
TRAFFIC AND PARKING	14,740	72.51%	1,032	14.00%	33	1,474	10.00%	47
COUNTY PENAL INSTITUTIONS	12,226	78.14%	856	14.00%	21	1,223	10.00%	31
COUNTY JAIL	13,954	72.74%	977	14.00%	28	1,395	10.00%	40
ALL OTHERS (63)	107,989	64.03%	13,747	25.46%	314	19,168	17.75%	438
TOTAL	\$867,576	77.74%	\$63,000		1,452	\$94,221		2,166
TOTAL SEMI-FIXED	\$215,537		0			\$10,779	5.00%	
TOTAL DEPARTMENTAL	\$1,083,113							
TOTAL FIXED	\$291,737							
GRAND TOTAL	\$1,374,850		\$63,000			\$105,000		